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R. J. REYNOLDS TOBACCO COMPANY

ANNUAL REPORT / 1962

R.J. REYNOLDS TOBACCO COMPANY

WINSTON-SALEM • NORTH CAROLINA

ANNUAL REPORT 1962

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RJR Comparative Summary

	1962	1961
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$1,603,006,158	$1,532,757,685
Net Earnings	119,803,165	117,249,158
Net Earnings as a percentage of Net Sales	7.47%	7.65%
Earnings per share on Common Stock *before* taxes on income*	$ 6.43	$ 6.53
Taxes on income per share of Common Stock*	3.46	3.62
Net Earnings per share of Common Stock*	2.97	2.91
Dividends per share on Common Stock*	1.60	1.40
Dividends on Preferred Stock	936,486	1,044,119
Dividends on Common Stock	64,000,000	56,000,000
FINANCIAL POSITION AND EQUITIES AT YEAR END		
Total Assets	$1,080,652,930	$1,059,641,550
Current Assets	924,718,636	924,079,675
Current Liabilities	359,659,505	384,953,048
Net Current Assets—Working Capital	565,059,131	539,126,627
Real Estate, Machinery and Equipment—net	145,552,006	127,029,549
Funded Debt	74,000,000	80,000,000
Equity of holders of Preferred Stock	24,974,700	27,870,800
Equity of holders of Common Stock	622,018,725	566,817,702
Number of stockholders at year end	97,383	89,550
Number of regular employees at year end	15,624	15,362

*Based on 40,000,000 shares.

TO THE STOCKHOLDERS

Bowman Gray

A. H. Galloway

In 1962 new highs were again established in sales, earnings, and payments to share owners. For the ninth consecutive year the dividend rate on the Common Stock was increased. Dividends paid in 1962 on the Common Stock amounted to $1.60 a share, an increase of 20 cents a share over the dividends paid in 1961.

The record cigarette volume achieved was due to substantial increases in the sales of WINSTON and SALEM Cigarettes, which are the two largest selling filter-tip brands in the country. In line with the continuing decline in demand for non-filter cigarettes, there was a small reduction in the sale of CAMEL Cigarettes, but that brand continues as the country's leading regular-size, non-filter cigarette.

In October, 1962, the Surgeon General of the United States announced the appointment of an advisory committee on smoking and health to review available data on smoking and other factors in the environment that may affect health. The Tobacco Industry Research Committee, of which your Company is a member and which for several years has been supporting and sponsoring independent research into matters relating to smoking and health, as well as the Tobacco Institute, of which your Company is also a member, are cooperating with the Surgeon General's committee. The industry welcomed the announcement of this project, which proposes to make a full and impartial review of all relevant epidemiological, clinical, and experimental evidence.

In December the Company entered into an agreement with Pacific Hawaiian Products Company, a California corporation, for the acquisition of substantially all of its assets by a wholly-owned Delaware subsidiary of your Company in exchange for approximately 971,500 shares of the Company's Common Stock and assumption by the Delaware subsidiary of certain liabilities of Pacific Hawaiian. The exact number of shares to be issued is subject to minor reductions under certain circumstances. Your Company would also be obligated to deliver a relatively small number of additional shares, which would be purchased, in connection with satisfying a contingent commitment of Pacific Hawaiian to issue additional shares of its stock and in connection with its restricted stock options. The agreement is subject to approval by the shareholders of Pacific Hawaiian at a meeting scheduled for February 8, 1963.

Pacific Hawaiian produces non-carbonated fruit juice beverages, principally HAWAIIAN PUNCH, in ready-to-drink form and in concentrated liquid and frozen forms. Wholly-owned subsidiaries are engaged in the processing of tropical fruits, the production of packaged cake mixes and related items, the assembly of shoeshine kits, and the marketing of reconstituted orange juice. Certain subsidiary operations are regional in character.

Pacific Hawaiian Products Company has an excellent reputation and during the last several years has had a rapid growth in its business. Your management is of the opinion that acquisition of this business will further the Company's diversification plans and ultimately will furnish the basis for increasing the Company's net earnings.

Appreciation is expressed by the management for the efficiency and faithfulness of its employees at every level which made possible the progress of the Company in 1962. Appreciation is also expressed to the share owners for their continuing confidence and interest.

Respectfully submitted for the Board of Directors,

Chairman, Board of Directors

President

January 28, 1963

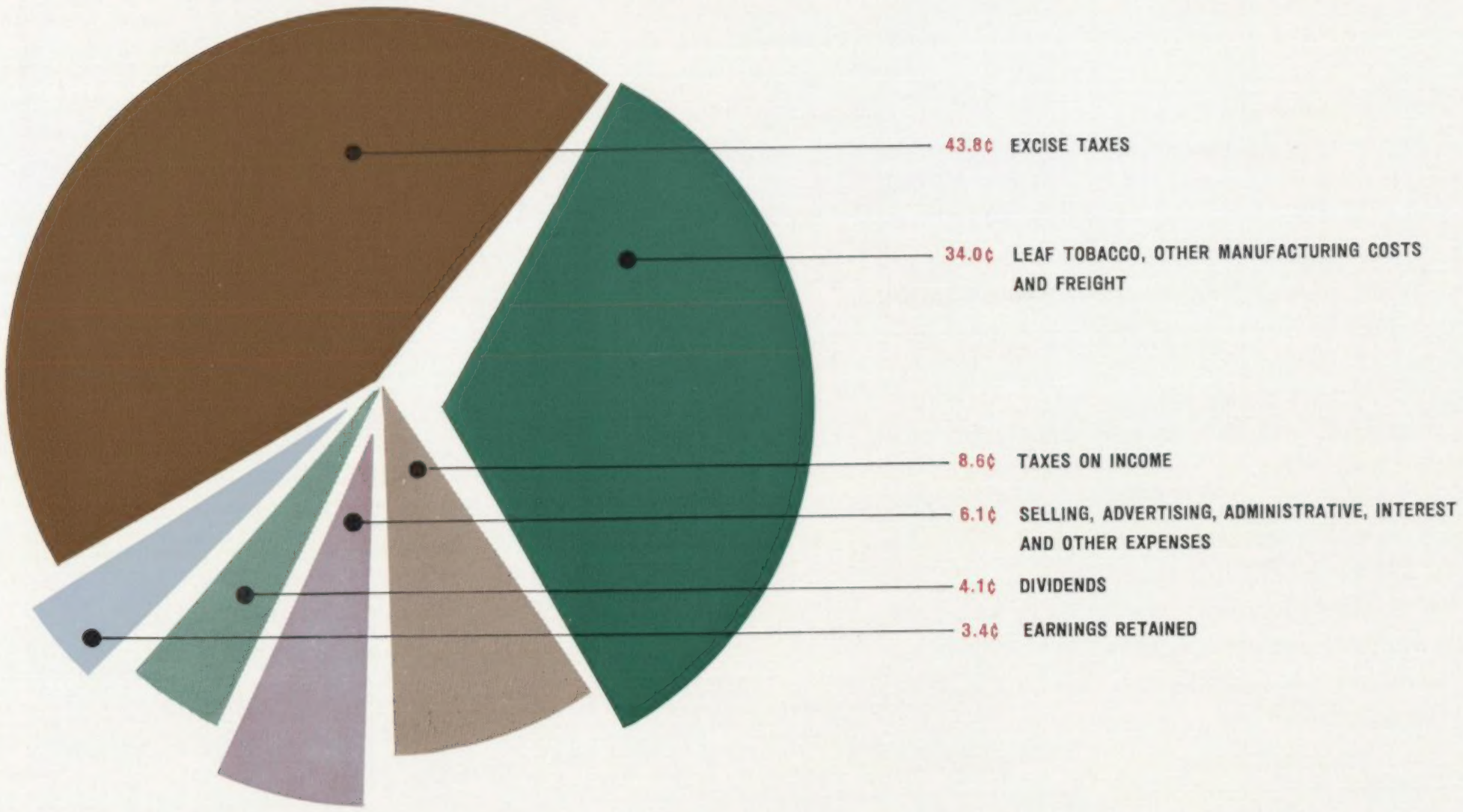
Financial Review

Sales in 1962 were $1,603,006,158, an increase of $70,248,473 over 1961. Net earnings were $119,803,165, or $2,554,007 greater than in the previous year. Earnings did not increase proportionately to sales principally because of higher leaf tobacco costs.

After payment of dividends on the Preferred Stock, net earnings on the Common Stock amounted to $2.97 per share compared to $2.91 in 1961.

In the first quarter of 1962, the quarterly dividend on Common Stock was increased to 40 cents a share, resulting in total dividends of $1.60 a share for the year compared to $1.40 during 1961. Dividends amounted to $64,000,000 on the Common Stock and $936,486 on the Preferred Stock, a total of $64,936,486, the largest dividend disbursement for any year in the Company's history.

DISTRIBUTION OF THE 1962 SALES DOLLAR



At the year end, short-term borrowings were $222,350,000, or $35,850,000 less than at the close of the previous year. As of December 31, 1962, all inventories totaled $843,113,231 as against $842,859,048 at the end of 1961. Although inventories of leaf tobacco are adequate, purchases from the 1962 crops were less than they would have been had there been greater quantities available of grades suitable for the Company's use.

In contrast with experience in earlier years, the Company in recent years has not been able to eliminate all short-term borrowings during any portion of the year. Such borrowings are at their minimum in the late summer months before commencement of large-scale marketing of the current leaf tobacco crop. In 1962 short-term borrowings reached the low point of $75,000,000 compared with $21,000,000 in 1961. It is anticipated that the low point of such borrowings in 1963 will be nearer the 1961 level. No long-term financing appears needed.

Due to larger average borrowings during the year, interest and debt expense amounted to $8,830,903 compared to $7,335,084 for 1961.

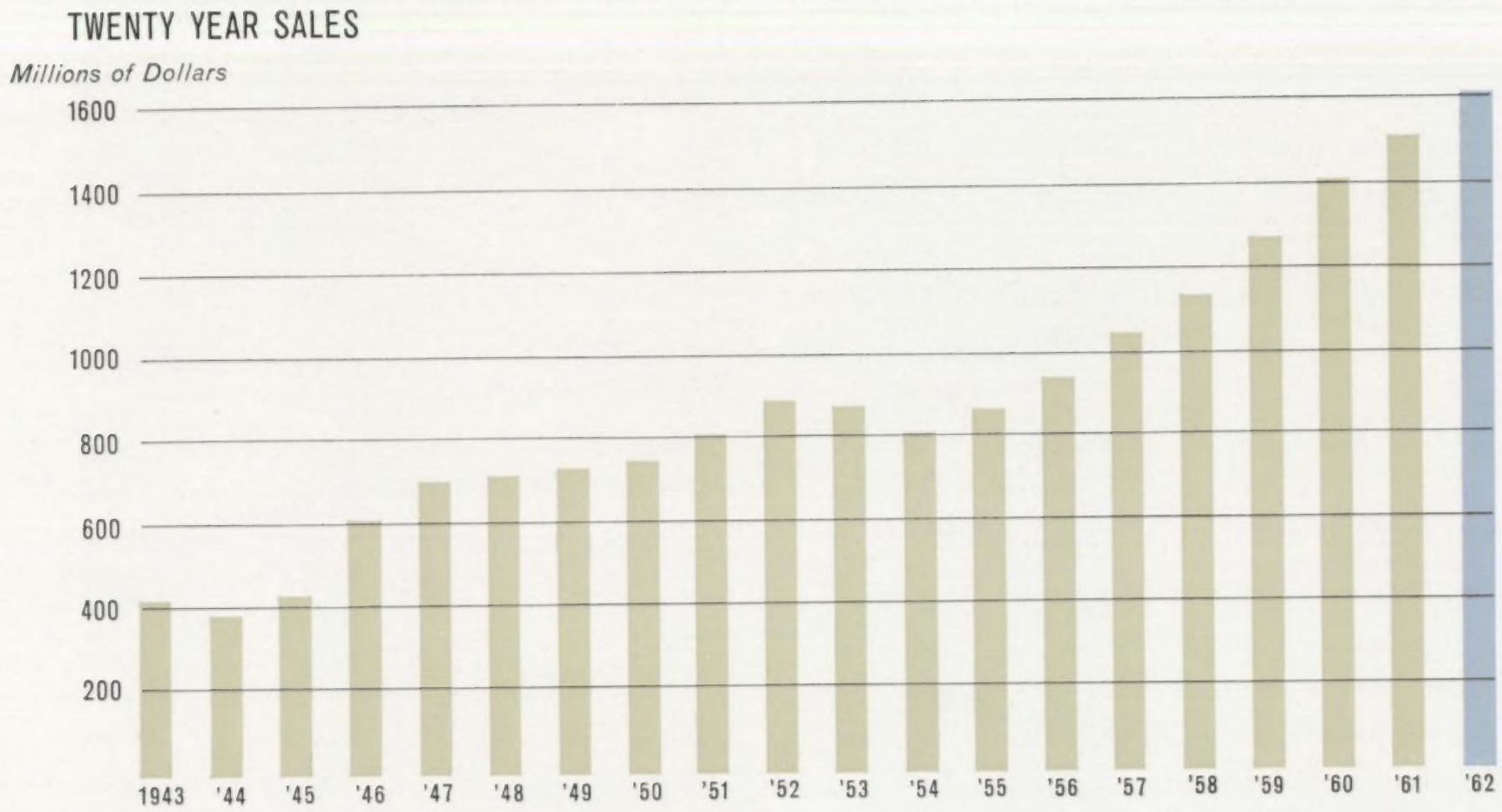
Depreciation charges for 1962 amounted to $15,413,046 (including an amount equivalent to the investment credit of $1,121,587), or $3,579,605 more than for 1961. The investment credit, pertaining to the purchase in 1962 of new machinery and equipment and permitted for the first time by changes made last year in the Federal tax laws, has been deducted from the provision for Federal taxes on income. After deducting accumulated depreciation and adjusting for disposals, the net account for real estate, machinery and

DISPOSITION OF 1962 NET EARNINGS

Dividends paid	$ 64,936,486
Purchase of Preferred Stock, 3.60% Series	2,561,756
Reduction in funded debt	6,000,000
Net addition to plant and equipment	18,522,457
Increase in working capital	25,932,504
Increase in other assets	1,849,962
Net earnings	$119,803,165

COMPUTATION OF INCREASE IN WORKING CAPITAL

Increase in current assets	$ 638,961
Decrease in current liabilities	25,293,543
Increase in working capital	$ 25,932,504



equipment stood at $145,552,006, or $18,522,457 more than at the end of 1961.

In 1962 funded debt was reduced by $6,000,000. During the year the Company increased its holdings in its Preferred Stock to 240,253 shares by acquiring 28,961 shares.

The accounts of the foreign affiliates are not consolidated with those of the Company. The West German company, Zigarettenfabrik Haus Neuerburg K.G., in which the Company owns 51% interest through its subsidiary Reynolds-Neuerburg G.m.b.H., showed a smaller operating loss for the year than was the case in 1961. This, together with a nonrecurring gain, should result in an approximate break-even basis. Accordingly, no adjustment was made in the Company's accounts for the year.

During the past six years of major plant expansion the net account for real estate, machinery and equipment has been increased by $100,540,324. During the same period working capital has been increased by $101,524,276 and other assets by $7,099,630, while funded debt has been reduced by $36,000,000 and $40,980,120 has been spent for the retirement and acquisition of Preferred Stock.

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Marketing

In 1962 the Company's cigarette brands continued to account for a larger portion of all cigarettes sold both in the domestic and in our export markets.

Three of the four top-selling cigarette brands in the country last year were manufactured by the Company. CAMEL Cigarettes retained their position as the leading regular-size, non-filter brand, although volume was slightly lower in line with the continuing decline in demand for this type of cigarette. WINSTON Cigarettes, showing the greatest gain of any major brand in the industry, widened their leadership as the nation's largest selling filter brand. SALEM Cigarettes, the second largest selling filter brand, again gained substantially, fur-

1 **"HUNTLEY-BRINKLEY REPORT"** Chet Huntley & David Brinkley

2 **"SING ALONG WITH MITCH"** Mitch Miller and the gang

3 **"PREMIERE"** Fred Astaire (Host)

4 **"TO TELL THE TRUTH"** Bud Collyer (Host)

5 **"THE BEVERLY HILLBILLIES"** Buddy Ebsen, Irene Ryan, Max Baer, Jr., & Donna Douglas

6 **"McHALE'S NAVY"** Ernest Borgnine

7 **"THE SUNDAY NIGHT MOVIE"**

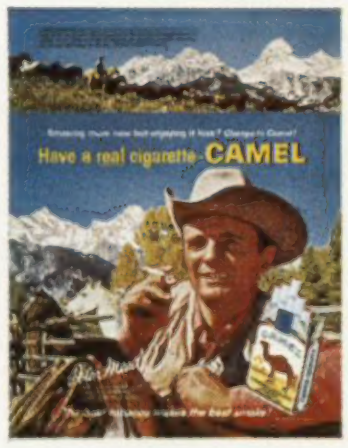
8 **"WAGON TRAIN"** John McIntire

9 **"THE GARRY MOORE SHOW"** Garry Moore

10 **"MR. SMITH GOES TO WASHINGTON"** Fess Parker

11 **"77 SUNSET STRIP"** Efrem Zimbalist, Jr., Roger Smith & Edward Byrnes

12 **"NATIONAL FOOTBALL LEAGUE HIGHLIGHTS"**



Major cigarette products were effectively promoted in color advertisements appearing in leading magazines and daily newspapers throughout the country.

ther strengthening their position as the leading menthol-flavored cigarette.

In keeping with the industry trend, the total volume of the Company's smoking and chewing tobacco sales was slightly lower in 1962. PRINCE ALBERT, however, retained its leadership as the nation's largest selling smoking tobacco, and CARTER HALL continued to increase in volume. DAYS WORK remained the largest selling brand of chewing tobacco.

ADVERTISING PROGRAM

Helping to maintain the Company's sales leadership was a strong advertising program which effectively promoted its major cigarette and smoking tobacco brands.

In order to appeal to the widest possible audience, the Company sponsored television shows offering a broad range of entertainment, including news, musical variety, adventure, comedy, sports, and drama. One of its newly sponsored shows, "The Beverly Hillbillies," in record time rose to the top in audience ratings, attracting more viewers per telecast than any other network program.

"The Huntley-Brinkley Report" was cited by the 1962 Awards Committee of *Saturday Review* for distinguished achievement in the public interest. "The Garry Moore Show" won the National

Academy of Television Arts and Sciences' "Emmy" — television's highest award — as the top variety show.

TV spot announcements were used to promote the Company's products in selected markets. Radio coverage included spot announcements on local stations and schedules on network programs.

Color advertisements in newspapers and magazines provided further promotional support for major products. The eye-catching WINSTON ad illustrated on the preceding page, considered a "new look" in cigarette advertising, attracted widespread attention.

The coordinated energies of the experienced and well-trained sales force were notable in attaining new sales records last year. The loyalty of this group is demonstrated by the fact that almost 40% of its members have ten or more years' experience with the Company.

GROWTH IN FOREIGN MARKETS

During 1962 the volume of the Company's export sales continued to grow substantially. Advertising and promotional efforts in foreign markets were intensified, and additional sales promotion representatives were assigned in various parts of the free world. Merchandising activities were carried out in practically all countries that permit the importation of cigarettes from the United States.

Tobacco Products

CIGARETTES
Camel
Winston
Salem
Cavalier

SMOKING TOBACCOS
Prince Albert
George Washington
Carter Hall
Top

PRINCIPAL BRANDS OF CHEWING TOBACCOS
(not illustrated)

Days Work
Brown's Mule
Apple Sun Cured
Reynolds' Natural Leaf

Economic Education

One of the major problems confronting our nation in today's world is the lack of understanding of economics by the population. Every business organization has much at stake in this regard, and the Company recognizes its obligation to foster greater understanding of the economic principles fundamental to the democratic form of government.

During the current school year the Company is one of the sponsors of a special television educational program devoted to instruction on the American economic system. This "College of the Air" course, consisting of 160 half-hour broadcasts, is carried nationally over more than 400 stations and is recognized for academic credit by many colleges and universities. It is designed to give a better understanding of the economic world to consumers, jobholders, investors, and voters.

For the past two summers the Company has sponsored at the University of North Carolina a college-credit program in economic education for teachers of social studies in junior and senior high schools throughout the Southeast. By helping such teachers obtain a better understanding of economics as applied to problems of business, government, and society, the Company believes it is furnishing the foundation for improved instruction in economics to secondary school students in a large and important area of the country.

The Company's affiliate in West Germany, Zigarettenfabrik Haus Neuerburg, K.G., continued to improve its market share in the non-filter category with Overstolz, its principal brand. In the important filter field, Reyno, introduced in 1961, consolidated its position of leadership in the menthol category. Efforts were continued to develop successful new brands in the regular filter category.

The Archer Aluminum Division of the Company continued to make progress. It produces aluminum foil products and various packaging materials, principally labels and cartons, which products are used by the Company or sold to others.

Among the nationally known items packaged in Archer's printed laminated foil wraps, printed and die-cut foil cartons, and paperboard folding cartons are frozen foods, margarine, toiletries, facial tissues, and confections.

FAIRYTALE Florist Foil, an Archer product, is now a leader in the industry.

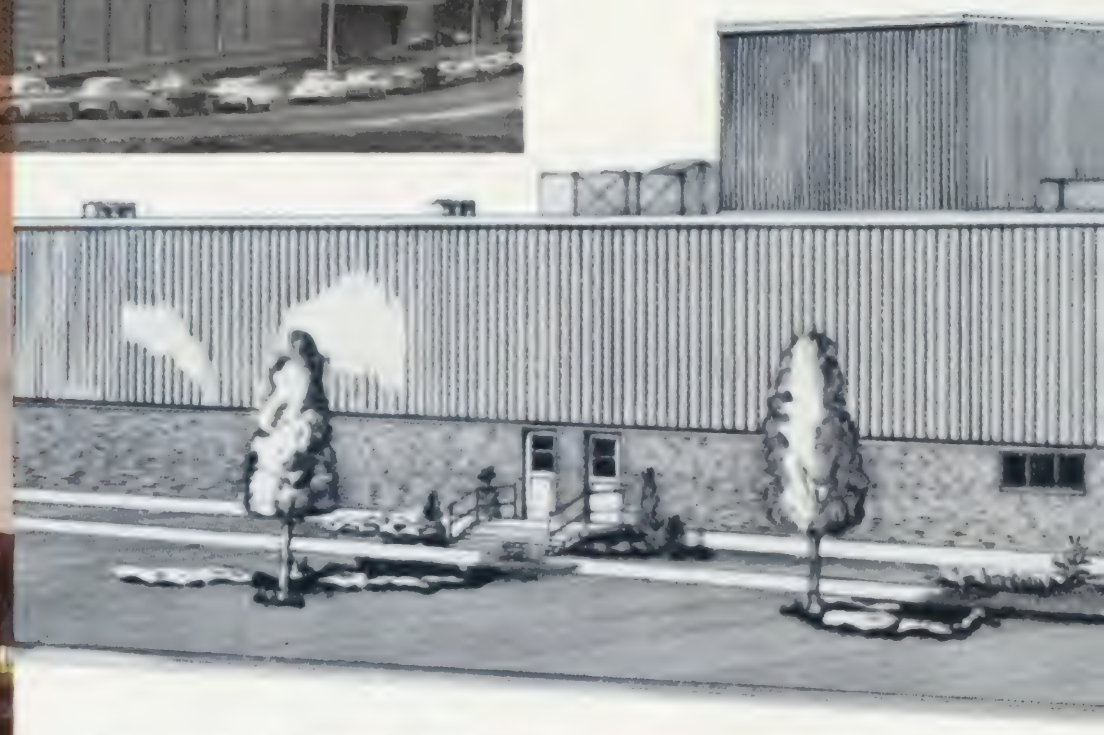
Archer foil is used by manufacturers in the production of electrical capacitors, telephone cable, building insulation materials, pipe insulation jacketing, aluminum Christmas trees, canisters, and foil pouches, bags, labels, and wraps.

For the tobacco business Archer produces a variety of materials, including cartons and crush-proof boxes, package labels, tear tape, laminated foil innerwrap, and foil overwrap for export shipments.

Supported by an energetic program of product and market research, Archer is developing new products and processes for the packaging industry and new industrial applications of aluminum products.

Leaf storage warehouses under construction in Davie County, North Carolina, where newest storage facility is being completed.

Tobacco processing plant at Whitaker Park to be completed in 1963.



Whitaker Park cigarette factory received two outstanding awards in 1962. Factory Magazine chose it as one of the "Top Ten" manufacturing plants, and the American Association of Nurserymen named it among the top eight in industrial landscaping.

Building Program

Capital expenditures for all purposes during 1962 amounted to $34,508,471. This brought the total investment in new and modernized facilities over the last six years to $163,088,142. Plant expansion and improvement will be continued in 1963, with estimated expenditures somewhat less than in 1962.

ARCHER ALUMINUM EXPANSION

Construction of two new production plants for the Archer Aluminum Division was about 95% completed at the year's end and some equipment had been installed. It is expected that the buildings will be completed early in 1963 and that production can begin in March. These facilities will increase Archer's capacity to meet growing demands for laminated foil products and for printing. They will increase to more than a half million square feet the floor area available to Archer for production and storage.

A third Archer building, completed in June, 1962, increased storage areas and made available more production space, thus permitting increased foil rolling capacity.

Expansion of Archer Aluminum Division includes two new buildings at Whitaker Park for foil laminating and printing.

NEW PROCESSING PLANT

An additional tobacco processing plant which is under construction at Whitaker Park, Winston-Salem, is scheduled for completion by June, 1963, at a cost of approximately $8,000,000.

LEAF STORAGE CAPACITY INCREASED

On the Company's 800-acre site in Davie County, North Carolina, twelve leaf storage warehouses were completed and nine of these were in service by the end of the year. Four additional warehouses will be finished early in 1963.

POWER PLANT EXPANSION

Work was begun in the fall of 1962 on a $5,750,000 expansion of the Company's power plant which serves the downtown Winston-Salem plants. This will increase steam generating capacity by 55% and will expand electrical power output by 65%. It is anticipated that these new facilities will go into service in the latter part of 1964.

R. J. REYNOLDS TOBACCO COMPANY

10 YEAR RECORD

Condensed Comparative Financial Data

Year ended December 31,	1962†	1961†	1960†	1959†	1958†
SALES, EARNINGS AND DIVIDENDS (amounts in thousands of dollars)					
Net Sales	$1,603,006	$1,532,758	$1,418,261	$1,286,856	$1,146,559
Income before taxes	258,094	262,132	221,730	197,770	171,984
Federal and state taxes on income	138,291	144,883	119,670	107,412	93,658
Net Earnings	119,803	117,249	105,258*	90,358	78,326
Dividends on Preferred Stock	936	1,044	1,126	1,280	2,282
Dividends on Common Stock	64,000	56,000	48,000	42,000	36,966
FINANCIAL POSITION AND EQUITIES (amounts in thousands of dollars)					
Current Assets	$ 924,719	$ 924,080	$ 823,089	$ 756,147	$ 661,542
Federal and state tax liabilities	100,473	93,216	78,348	87,619	75,002
Other current liabilities	259,186	291,737	246,995	190,125	131,180
Working Capital	565,060	539,127	497,746	478,403	455,360
Real Estate, Machinery and Equipment—net	145,552	127,030	110,724	94,291	78,876
Total Assets	1,080,653	1,059,642	947,258	853,352	743,333
Funded Debt	74,000	80,000	86,000	92,000	98,000
Equity of holders of Preferred Stock	24,975	27,871	29,511	34,077	37,285
Equity of holders of Common Stock	622,019	566,818	506,405	449,531	401,866
FINANCIAL STATISTICS (Based on 40,000,000 shares. Prior years adjusted for 2-for-1 stock splits in 1961 and 1959.)					
Income taxes per share of Common Stock	$ 3.46	$ 3.62	$ 2.99	$ 2.69	$ 2.34
Earnings per share on Common Stock	2.97	2.91	2.60**	2.23	1.90
Dividends per share on Common Stock	1.60	1.40	1.20	1.05	.92½
Book value per share of Common Stock	15.55	14.17	12.66	11.24	10.05

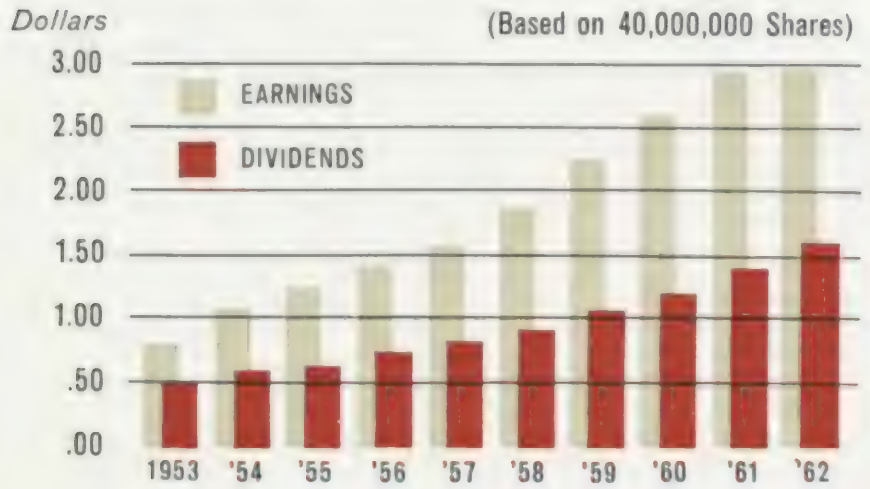
†Effective with 1957, the Company adopted the LIFO method of pricing inventories instead of the average cost method used in previous years.

*Includes credit of $3,198,466 resulting from settlement of income tax liabilities for prior years.

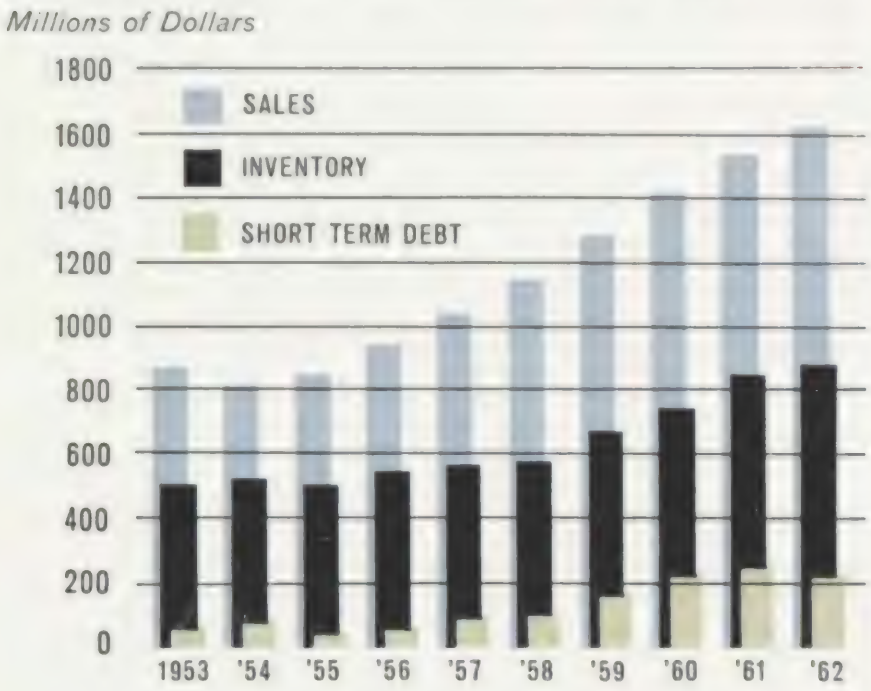
**Includes $0.08 per share credit resulting from settlement of income tax liabilities for prior years.

	1957†	1956	1955	1954	1953
	$1,053,326	$957,367	$866,426	$814,274	$876,189
	138,606	137,103	121,268	103,343	102,873
	74,446	75,190	68,000	58,516	68,701
	64,160	61,913	53,268	44,827	34,172
	2,657	2,763	2,794	2,894	2,934
	32,718	30,707	25,737	23,732	19,756
	$ 646,593	$611,100	$566,735	$574,025	$558,394
	63,744	71,202	69,574	62,279	71,513
	116,241	76,363	51,865	82,593	66,189
	466,608	463,535	445,296	429,153	420,692
	63,557	45,012	41,486	40,259	36,395
	713,097	659,394	611,641	617,636	598,609
	104,000	110,000	115,000	120,000	125,000
	66,572	68,483	70,686	73,377	75,000
	362,540	333,346	304,516	279,386	260,907
	$ 1.86	$ 1.88	$ 1.70	$ 1.46	$ 1.72
	1.54	1.48	1.26	1.05	.78
	.82½	.77½	.65	.60	.50
	9.06	8.33	7.61	6.98	6.52

EARNINGS AND DIVIDENDS PER COMMON SHARE



SALES, INVENTORY AND SHORT TERM DEBT



CAPITAL EXPENDITURES AND DEPRECIATION

R. J. REYNOLDS TOBACCO COMPANY

Financial Position —

ASSETS	1962	1961
CURRENT ASSETS:		
Cash	$ 29,747,540	$ 28,526,809
Accounts receivable from customers (less discounts)	51,857,865	52,693,818
Leaf tobacco, supplies, manufactured products, etc.— at cost (last-in, first-out basis)	843,113,231	842,859,048
TOTAL CURRENT ASSETS	924,718,636	924,079,675
REAL ESTATE, MACHINERY AND EQUIPMENT—at cost	222,136,574	191,598,723
Less allowances for depreciation	76,584,568	64,569,174
NET REAL ESTATE, MACHINERY AND EQUIPMENT	145,552,006	127,029,549
OTHER ASSETS:		
Investments in (at cost, less reserves) and advances to non-consolidated foreign affiliates	7,782,390	5,473,968
Other investments	226,000	225,000
Brands, trade-marks and good will	1	1
Prepaid expenses and sundry receivables	2,373,897	2,833,357
TOTAL OTHER ASSETS	10,382,288	8,532,326
	$1,080,652,930	$1,059,641,550

December 31, 1962 with comparative figures for 1961

LIABILITIES

	1962	1961
CURRENT LIABILITIES:		
Notes payable	$ 222,350,000	$ 258,200,000
Accounts payable and sundry accrued accounts	30,836,102	27,536,813
Funded debt due within one year	6,000,000	6,000,000
Federal and state taxes	100,473,403	93,216,235
TOTAL CURRENT LIABILITIES	359,659,505	384,953,048
FUNDED DEBT (due annually through 1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000):		
2½% Promissory Notes	28,000,000	33,000,000
3% Debentures, due October 1, 1973	46,000,000	47,000,000
TOTAL FUNDED DEBT	74,000,000	80,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 490,000 shares 3.60% Series	49,000,000	49,000,000
Common Stock—Par $5		
Authorized		
60,000,000 shares		
Issued		
40,000,000 shares	200,000,000	200,000,000
	249,000,000	249,000,000
Earnings Retained for requirements of the business	418,171,925	363,305,246
	667,171,925	612,305,246
Less Cost of Preferred Stock, 3.60% Series, in Treasury (240,253 shares in 1962; 211,292 shares in 1961)	20,178,500	17,616,744
TOTAL CAPITAL AND EARNINGS RETAINED	646,993,425	594,688,502
	$1,080,652,930	$1,059,641,550

R. J. REYNOLDS TOBACCO COMPANY

Statement of Earnings

Year ended December 31, 1962—with comparative figures for 1961

	1962	1961
NET SALES	$1,603,006,158	$1,532,757,685
OTHER INCOME	424,237	341,931
TOTAL INCOME	1,603,430,395	1,533,099,616
LESS:		
Cost of goods sold, selling and general expenses, exclusive of items below	1,321,092,281	1,244,591,200
Provision for depreciation	15,413,046	11,833,441
Interest and debt expense	8,830,903	7,335,084
Provision to reduce net carrying amount of investment in non-consolidated foreign affiliates	—	7,207,733
Provision for Federal and state taxes on income	138,291,000	144,883,000
TOTAL INCOME DEDUCTIONS	1,483,627,230	1,415,850,458
NET EARNINGS	$ 119,803,165	$ 117,249,158
Dividends paid on Preferred Stock	$ 936,486	$ 1,044,119
NET EARNINGS APPLICABLE TO COMMON STOCK	$ 118,866,679	$ 116,205,039

NOTES TO FINANCIAL STATEMENTS

NOTE A — PACIFIC HAWAIIAN PRODUCTS COMPANY

On December 17, 1962, the Company entered into an agreement to acquire, through a subsidiary, substantially all the assets of Pacific Hawaiian Products Company in exchange for approximately 971,500 shares of the Company's unissued Common Stock and the assumption by the subsidiary of certain liabilities of Pacific Hawaiian. The agreement is subject to approval by the shareholders of Pacific Hawaiian at a meeting to be held on February 8, 1963. The acquisition will be treated as a "pooling of interests".

NOTE B — FEDERAL INCOME TAXES

The 1962 provision for Federal income taxes is after deducting the investment credit of $1,121,587, and an equivalent amount has been included as additional depreciation for the year.

R. J. REYNOLDS TOBACCO COMPANY

Statement of Earnings Retained

Year ended December 31, 1962—with comparative figures for 1961

	1962	1961
EARNINGS RETAINED for requirements of the business—at beginning of year	$363,305,246	$403,100,207
ADD:		
Net Earnings	119,803,165	117,249,158
	483,108,411	520,349,365
DEDUCT:		
Cash dividends—		
Preferred Stock, 3.60% Series	936,486	1,044,119
Common Stock at $1.60 per share for 1962 ($1.40 per share for 1961)	64,000,000	56,000,000
TOTAL CASH DIVIDENDS	64,936,486	57,044,119
Transferred to Common Stock in connection with the 2-for-1 stock split September 7, 1961	——	100,000,000
TOTAL DEDUCTIONS	64,936,486	157,044,119
EARNINGS RETAINED for requirements of the business—at end of year	$418,171,925	$363,305,246

REPORT OF INDEPENDENT ACCOUNTANTS

R. J. REYNOLDS TOBACCO COMPANY, ITS DIRECTORS AND STOCKHOLDERS

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1962, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1962, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST

Winston-Salem, N. C., January 25, 1963

R. J. REYNOLDS TOBACCO COMPANY

BOARD OF DIRECTORS

D. RICE ALLEN, JR.
CHARLES H. BABCOCK
LEIGHTON H. COLEMAN
A. H. GALLOWAY
BOWMAN GRAY
GORDON GRAY
S. B. HANES, JR.
KENNETH H. HOOVER
WILLIAM R. LYBROOK
DAVID S. PEOPLES
H. H. RAMM
JOSEPH H. SHERRILL
W. S. SMITH, JR.
COLIN STOKES
CHARLES B. WADE, JR.

OFFICERS

BOWMAN GRAY . . . . . *Chairman, Board of Directors*
A. H. GALLOWAY *President and Chairman, Executive Committee*
S. B. HANES, JR. . . . . *Executive Vice President*
COLIN STOKES . . . . . *Executive Vice President*
H. H. RAMM . . . . . *Vice President*
KENNETH H. HOOVER . . . . . *Vice President*
CHARLES B. WADE, JR. . . . . *Vice President*
W. S. SMITH, JR. . . . . *Vice President*
WILLIAM R. LYBROOK . . . . *Vice President and Secretary*
DAVID S. PEOPLES . . . . . *Comptroller*
E. C. PETERSON . . . . . *Treasurer*

REGISTRAR

Manufacturers Hanover Trust Company
70 Broadway, New York 15, N. Y.

TRANSFER AGENTS

The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York 15, N. Y.

The First National Bank of Jersey City
1 Exchange Place, Jersey City 3, N. J.

Cigarette Taxes— Enough to Pay for Space Program

Federal taxes levied on cigarettes—at the rate of 8¢ a pack—in the fiscal year ended June 30, 1962 amounted to enough to pay for the entire appropriation for that year of the National Aeronautics and Space Administration (NASA), with $137 million to spare. Taxes collected were $1,957,000,000; total appropriations for NASA were $1,820,000,000.

When state and local taxes on cigarettes are added, the total soars to $3,127,000,000—more than enough to cover NASA's expenditures one and two-thirds times.

R. J. REYNOLDS TOBACCO COMPANY / ANNUAL REPORT / 1962